

## Message Text

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ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 AID-05 CEA-01 CIAE-00 COME-00  
EB-08 EA-10 FRB-03 INR-07 NEA-10 NSAE-00 USIA-06  
OPIC-03 SP-02 TRSE-00 LAB-04 SIL-01 AGRE-00  
OMB-01 SS-15 NSC-05 PA-01 PRS-01 /109 W  
-----112218 010933Z/23

R 301400Z SEP 77  
FM AMEMBASSY BERN  
TO SECSTATE WASHDC 5007  
INFO AMEMBASSY BONN  
AMEMBASSY BRUSSELS  
USMISSION GENEVA  
AMEMBASSY LONDON  
AMEMBASSY PARIS  
AMEMBASSY ROME  
AMCONSUL ZURICH POUCH

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USMTN ALSO FOR MISSION

USOECD ALSO FOR EMBASSY  
PASS TREASURY AND FRB

EO 11652: N/A  
TAGS: EFIN, SZ  
SUBJ: MORE ON NEW SWISS NATL BANK RULE FOR FORWARD FRANC SALES

REF: BERN 4546

1. EMBOFF DISCUSSED SUBJECT REGULATION SEPT 28  
WITH SNB FOREIGN EXCHANGE MANAGER HANS STAHEL.  
STAHEL SAID SNB WAS DISAPPOINTED THAT COMMERCIAL  
BANKS' REACTION HAD BEEN THAT NEW REGULATION WAS  
"MEANINGLESS". SNB VIEWS THIS REACTION AS  
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SHORT-SIGHTED LACK OF COOPERATION. SNB WAS CAREFUL  
TO BAN ONLY ONE MONTH FORWARD FRANC PLACEMENTS BY  
NON-RESIDENTS. THAT STEP STILL ENABLES PARTIES  
ENGAGED IN FINANCING FOREIGN TRADE TRANSACTIONS  
TO COVER THEIR FOREIGN EXCHANGE RISKS, WHICH ARE  
NORMALLY FOR PERIODS LONGER THAN 30 DAYS. STAHEL  
STRESSED THAT SNB WOULD HAVE LIKED TO HAVE BEEN

ABLE TO REMOVE EXISTING RESTRICTIONS ON FORWARD FRANC TRANSACTIONS RATHER THAN IMPOSE ADDITIONAL ONES. HOWEVER, EVIDENCE OF SPECULATION IN APPRECIATING FRANC DICTATED THIS ADDITIONAL MOVE.

2. STAHEL NOTED THAT SOME SWISS BANKERS HAD WARNED THAT NEW RULE WOULD CAUSE SHORT-TERM MARKET TO SHIFT TO LONDON. HOWEVER, STAHEL HAD CHECKED THIS WITH HIS BANK OF LONDON COUNTERPART WHO SAID THAT NO SUCH TREND HAD BEEN DETECTED IN 24 HOURS FOLLOWING ANNOUNCEMENT OF NEW SNB RULE.

3. STAHEL FELT THAT NEGATIVE STATEMENTS BY BANKS MEANT NEW RULE WOULD NOT BE EFFECTIVE. HE ADDED THAT ALTHOUGH SNB COULD NOT HOPE TO BRING UP DOLLAR RATE, THEY HAD HOPED TO BE ABLE TO STALL RAPID FRANC APPRECIATION. SWISS VIEW EXCHANGE RATE FLUCTUATIONS OF TWO PERCENT, OR EVEN LESS, AS CONSTITUTING DISORDERLY MARKET CONDITIONS. STAHEL NOTED THAT SNB'S ABILITY TO PURCHASE DOLLARS IS LIMITED BY MONETARY POLICY CONSIDERATIONS. ALTHOUGH PRESENT SITUATION IS SATISFACTORY, SNB NEEDS TO EXERCISE CAUTION BECAUSE SWISS MARKET IS HIGHLY LIQUID. TIGHT LIQUIDITY AT END-GU REPORTED BY PRESS WAS ERRONEOUS AND CONCERNED ONLY ONE BANK.

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4. STAHEL COMMENTED ON PRESS STATEMENT BY SNB PRESIDENT LEUTWILER THAT LARGE FRANC FLUCTUATIONS APPEARED TO STEM FROM TRANSACTIONS BETWEEN CURRENCIES VIA SWISS FRANC (BERN 4532). HE SAID IT IS BECOMING MORE DIFFICULT TO DISCERN FACTORS AT WORK IN DETERMINING EXCHANGE RATES. THIS MAKES FORECASTING IMPOSSIBLE. IN STAHEL'S VIEW, EXPLANATION OF SWISS FRANC APPRECIATION AS FUNCTION OF HIGHER FOREIGN INFLATION RATES AS OVERSIMPLIFICATION OF SITUATION. SNB FEELS DOLLAR RATE IS TOO LOW IN VIEW OF REAL DOLLAR PURCHASING POWER IN US. LOW DOLLAR RATE IS BELIEVED TO BE PSYCHOLOGICAL REACTION TO US CURRENT ACCOUNT DEFICIT AND DECLINING CONFIDENCE IN US ECONOMIC PERFORMANCE. STAHEL ADDED THAT HE WONDERED HOW MUCH LONGER OPEC COUNTRIES WOULD ACCEPT PAYMENT IN DOLLARS FOR OIL EXPORTS IF DOLLAR CONTINUES TO DECLINE. HE THOUGHT OPEC WOULD EVENTUALLY REQUIRE PAYMENT IN TERMS OF SDRS OR SOME OTHER SIMILAR BASKET OF CURRENCIES.

5. STAHEL SAID HE BELIEVED GOLD PRICE WOULD RISE FURTHER BUT GRADUALLY. HE FELT THAT MAJOR MARKET

PARTICIPANTS CONTINUE TO BUEAR IN MIND POSSIBILITY  
THAT US TREASURY COULD SELL GOLD. HOWEVER, STAHEL  
BELIEVED THERE IS RELUCTANCE BY US TO SELL ITS  
GOLD AND SAID HE DOUBTED US WOULD DO SO UNLESS  
PRICE ROSE VERY HIGH, E.G., TO 200.

6. EMBASSY COMMENT: STAHEL'S CONCERN THAT NEW  
SNB MEASURE WOULD NOT SUCCEED APPEARS TO BE  
JUSTIFIED. DOLLAR RATE AGAINST SWISS FRANC CLOSED  
ST SF 2.3540 SEPT 28 AND REACHED NEW RECORD LOW  
OF SF 2.3390. BEFORE CLOSING AT SF 2.3400 SEPT 29.  
WARNER

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## Message Attributes

**Automatic Decaptoning:** X  
**Capture Date:** 01-Jan-1994 12:00:00 am  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** SALES, MARKETS, BANKS, FRANC, CAPITAL FLOWS  
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**Decapton Date:** 01-Jan-1960 12:00:00 am  
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**Disposition Approved on Date:**  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 22 May 2009  
**Disposition Event:**  
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**Disposition Reason:**  
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**Document Unique ID:** 00  
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**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Expiration:**  
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**Office:** ACTION EUR  
**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 3  
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**Reference:** 77 BERN 4546  
**Retention:** 0  
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**Subject:** MORE ON NEW SWISS NATL BANK RULE FOR FORWARD FRANC SALES  
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**To:** STATE  
**Type:** TE  
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**Review Markings:**  
Margaret P. Grafeld  
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EO Systematic Review  
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